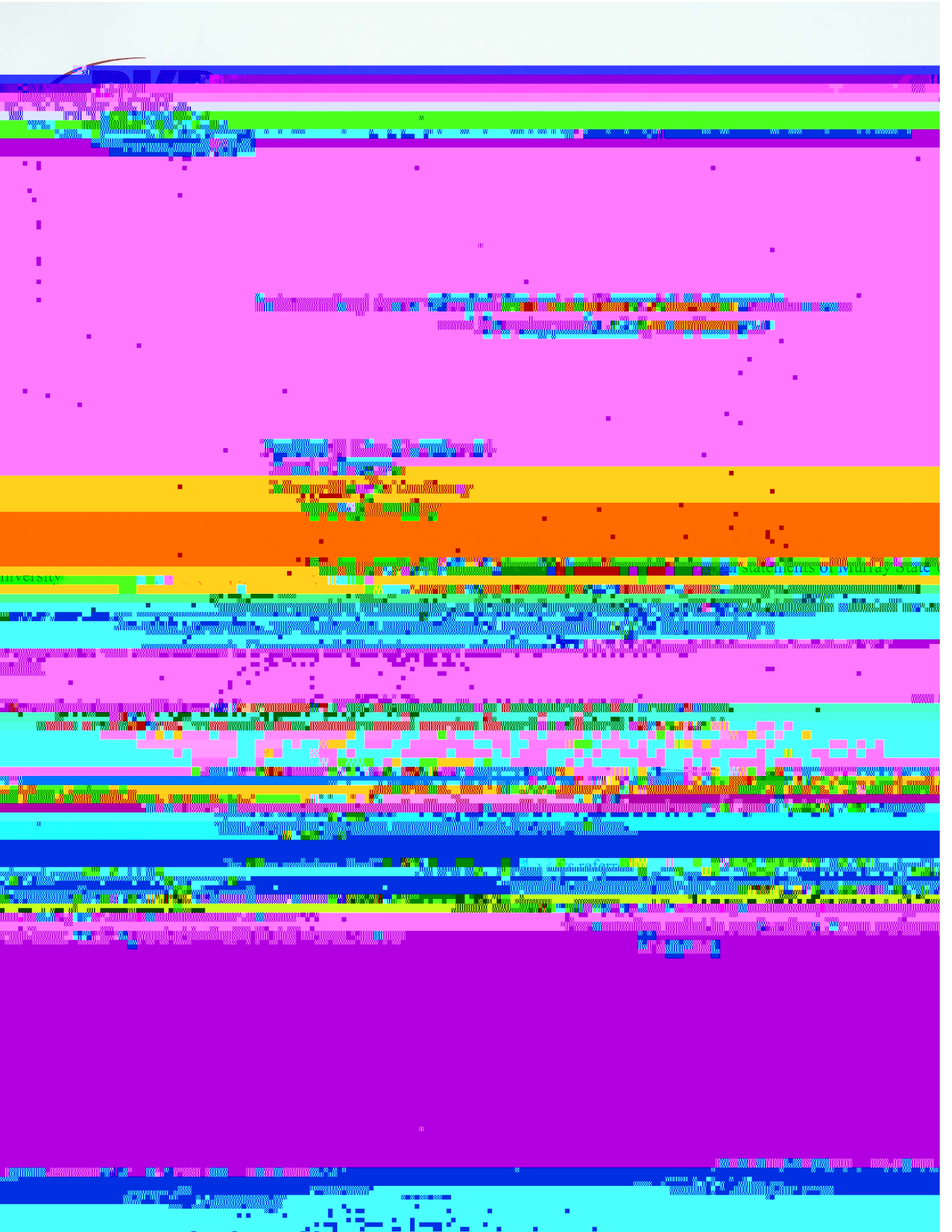


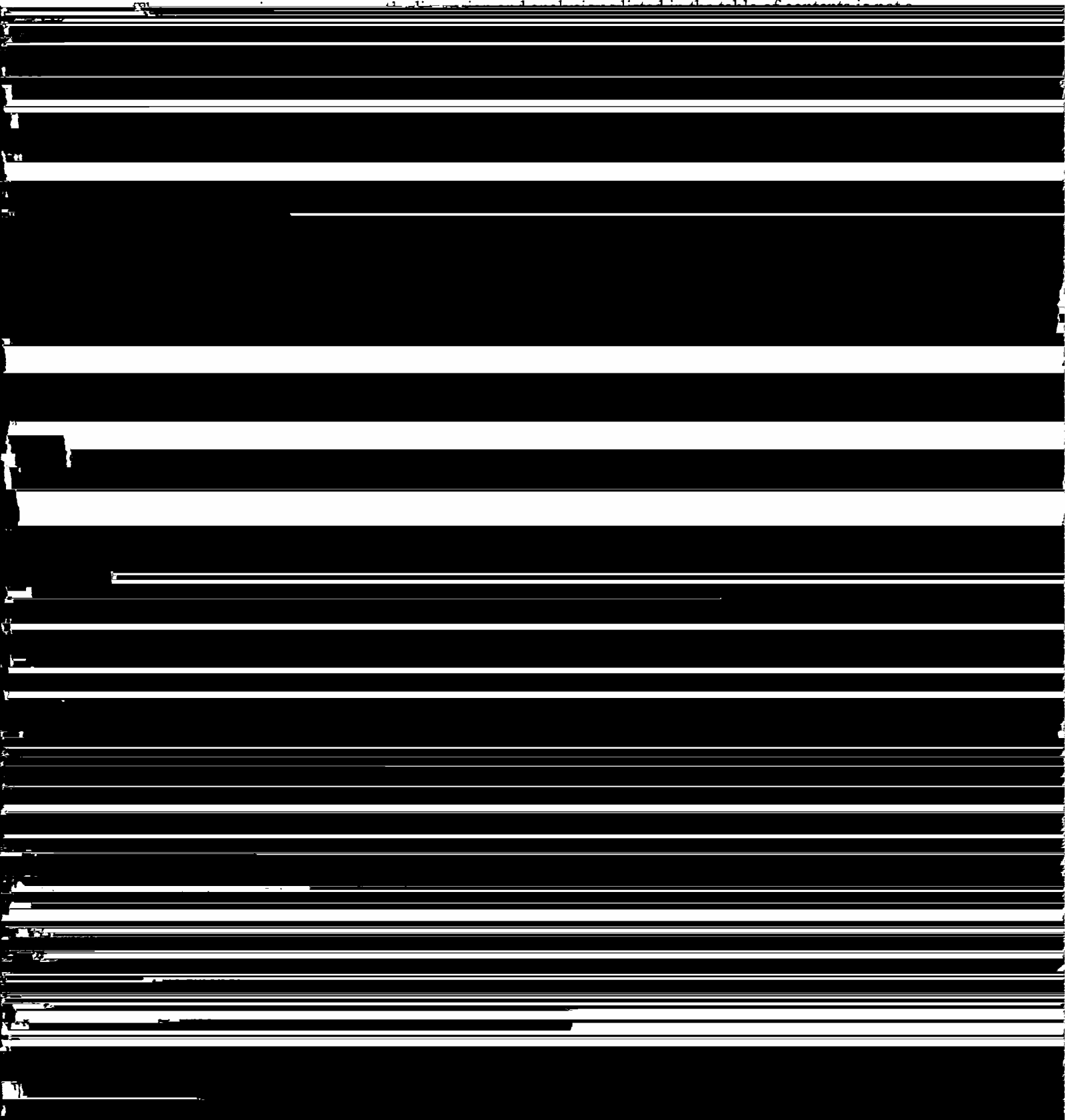
A Component Unit of the State of Kentucky
Accountants' Report and Financial Statements
June 30, 2005 and 2004



Balance Sheets	
Murray State University	15
Statements of Financial Position	
Murray State University Foundation, Inc.	17
Murray State University Athletic Foundation, Inc.	18
Statements of Revenues, Expenses and Changes in Net Assets	
Murray State University	19
Statements of Activities	
Murray State University Foundation, Inc.	21
Murray State University Athletic Foundation, Inc.	23
Statements of Cash Flows	
Murray State University	25
Notes to Financial Statements	27



President F. King Alexander and
Board of Regents
Murray State University
Page 2



- Ø Fiscal operations were in accordance with the annual operating budget of approximately \$107 million. Notwithstanding a reduction in state appropriations, the University continued to be a strong employer for the region and employed approximately 3,940 individuals, including 575 faculty and 1,090 staff members and 2,275 students. These amounts include 1,350 regular and full time faculty and staff.

- Ø State appropriations from the Commonwealth of Kentucky fell by a net of \$.8 million or 1.5% in 2005, which included a general appropriations reduction of \$1.6 million. Departmental

million was utilized for this project, with the most significant portion being funded from the Kentucky Council on Postsecondary Education's Equine Trust Fund.

- Ø A major upgrade to the main campus and residential colleges networking infrastructure was completed and funded with approximately \$1.6 million of masterlease debt financing. The debt will be repaid with student fee revenue. This upgrade increased network stability and allows the University to move forward with new Internet technologies.
- Ø The University received a \$1 million technology and training grant from CampusEAI Consortium. This grant will provide the capability to cost effectively enhance the portal project initiative. These technologies will streamline access to University online services and

Balance Sheets

The Balance Sheets present a financial picture of the University's financial condition at the end of the 2005 and 2004 fiscal years by reporting assets (current and noncurrent), liabilities (current and noncurrent), and net assets. Net assets, the difference between total assets and total liabilities, are an important indicator of the current financial condition, while the change in net assets is an indicator of whether the overall financial position has improved or worsened during the year.

Assets

Total assets at the end of the fiscal year 2005 were \$199.6 million, of which capital assets, net of depreciation, represented the largest portion. This group of assets totaled approximately \$119.3 million or 60% of total assets and was primarily comprised of university-owned land, buildings, equipment, and library holdings. Cash and cash equivalents amounted to \$42.1 million or 21% of total assets. Total assets increased by \$5.5 million during 2005, which was primarily due to the capitalization of major construction projects. Total assets increased by \$10.7 million during 2004, which was primarily due to \$3.3 million received for the Endowment Matching Program, the capitalization of Winslow Cafeteria, and construction costs of various projects.

Liabilities

Total liabilities at the end of the fiscal year 2005 were \$51.6 million. An increase in total long-term debt obligations, reduced further by a decrease in debt payments and accounts payables for phase I of the science complex and the student recreation/wellness center, were the primary reasons for an overall total liabilities increase during 2005 of \$1.2 million. Total long-term debt obligations amounted to \$36.8 million. These debt obligations increased by \$3.9 million during 2005, due primarily to the \$6.7 million Chevron Energy Performance masterlease, net of current year debt payments.

Total liabilities at the end of the fiscal year 2004 were \$50.4 million. During 2004, total liabilities decreased by \$4.1 million due to the use of deferred revenues, recorded in 2003, for the science complex phase I construction project. These deferred revenues were recognized as revenues in 2004 and used to pay for expenses related to construction.

Expenses

Total operating expenses for the 2005 fiscal year were \$131.7 million. Of this amount, \$109.1 million were for educational and general expenses, including instruction, academic support, and operation and maintenance. Instructional program expenses represent the most significant portion of the educational and general operating expenses, totaling \$47.0 million or 43% of the total educational and general portion. Remaining operating expenses were for depreciation and auxiliary services, which amounted to \$7.4 million and \$15.3 million, respectively. Depreciation for all areas of the University is reported as an operating expense and was not allocated to each program group, except for auxiliary enterprises.

Operating expenses increased for the year ended June 30, 2005, by \$7.2 million. Only minimal increases were reported for operating costs for services, materials, and supplies for departmental units. The primary reasons for increased operating expenses are salaries, utilities, property insurance and other fixed costs.

The net loss from operations for the year ended June 30, 2005, was \$56.1 million. Nonoperating revenues, net of expenses, amounted to \$57.1 million and non-debt related capital funding amounted to \$3.3 million, resulting in an increase in net assets of \$4.3 million for the year ended June 30, 2005.

The net loss from operations for the year ended June 30, 2004, was \$54.5 million. Nonoperating revenues, net of expenses, amounted to \$60.3 million and non-debt related capital funding amounted to \$9 million, resulting in an increase in net assets of \$14.8 million for the year ended June 30, 2004.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Operating revenues			
Student tuition and fees, net	\$ 32,351,507	\$ 27,896,362	\$ 25,049,932
Grants and contracts	20,130,510	19,593,986	17,208,964
Other	5,140,180	5,395,820	4,673,883
Auxiliary, net	<u>17,993,122</u>	<u>17,109,547</u>	<u>16,500,239</u>
Total operating revenues	<u>75,615,319</u>	<u>69,995,715</u>	<u>63,433,018</u>
Operating expenses			
Instruction	47,040,216	46,574,969	45,804,242
Other educational and general	62,023,778	56,662,972	54,072,308
Depreciation	6,527,977	5,840,909	5,784,813
Auxiliary enterprises	15,267,241	14,592,820	14,769,901

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$7.3 million during 2005. A large portion of this change is due to reduced expenses in 2005 related to capital construction projects, such as the student recreation/wellness center and phase I of the science complex.

The cash flows provided by (used in) investing activities represent the cash activities of investments, which changed by \$2.8 million. This change is related to the purchase of investments for the energy performance project debt escrow fund.

The net cash used in operating activities reflects the net cash used for general operations of the University, which changed by \$1.2 million during 2004. A large portion of this change was due to savings and more efficient operations of auxiliary enterprises.

The cash flows from noncapital financing activities, changed by \$.5 million during 2004. This change was due to the increase of grants and contracts receipts. However, two significant transactions are reflected in this section of the 2004 Statement of Cash Flows. The \$3.3 million receipt of the Regional Universities Endowment Trust Fund proceeds awarded to the University in 2004 caused an increase in noncapital financing activities. In 2004, these funds were also transferred to the MSU Foundation for investment purposes, which caused a decrease for the same amount.

The net cash flows used in capital and related financing activities represent cash received and used for the acquisition, construction, and renovation of capital assets, which changed by \$13.2 million during 2004. A large portion of this change is due to expenses related to the continued construction of the science complex and the student recreation/wellness center.

The cash flows provided by investing activities represent the cash activities of investments related to bond reserve funds and endowment assets. Minimal changes in debt service reserve requirements were required for the year ended June 30, 2004.

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Cash provided/(used by):			
Operating activities	\$ (48,520,987)	\$ (47,628,530)	\$ (48,819,153)
Noncapital financing activities	54,474,090	54,974,561	54,478,012
Capital and related financing activities	(5,788,732)	(13,041,031)	164,548
Investing activities	<u>(1,368,063)</u>	<u>1,508,087</u>	<u>1,483,471</u>
Net increase in cash	<u>(1,203,692)</u>	<u>(4,186,913)</u>	<u>7,306,878</u>
Cash and cash equivalents, beginning of year	<u>43,341,386</u>	<u>47,528,299</u>	<u>40,221,421</u>
Cash and cash equivalents, end of year	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>	<u>\$ 47,528,299</u>

Capital Assets and Debt Administration

The University had a \$1.7 million increase in capital assets during the fiscal year ended June 30, 2005. This change is primarily due an increase of \$1.1 million in equipment acquisitions. The Science Complex Phase I and Wellness Center projects, which total \$24 million, was transferred from construction in progress to the buildings assets during the year. Capital assets as of the year ended June 30, 2005, and changes during the year are as follows:

	Balance June 30, 2005	Net Change 2004-05
Land	\$ 6,791,881	\$ 310,316
Construction in progress	3,055,589	(19,509,585)
Museum and collectibles	497,193	-
Buildings	182,540,678	24,324,756

Current Assets

Cash and cash equivalents	\$ 31,733,726	\$ 25,491,325
Accounts receivable, net	5,212,078	4,582,500
Inventories	1,982,920	2,021,246
Prepaid expenses	876,607	684,832
Loans receivable, net	869,983	771,011
Interest receivable	<u>15,055</u>	<u>114,524</u>
Total current assets	<u>40,690,369</u>	<u>33,665,438</u>

Noncurrent Assets

Restricted cash and cash equivalents	10,403,968	17,850,061
Restricted investments	25,051,377	20,797,865
Accounts receivable, net	91,700	183,400
Loans receivable, net	3,641,037	3,604,160
Capital assets	248,454,850	239,941,433
Accumulated depreciation	(129,200,235)	(122,422,940)

Debt issu6.7()i9e89.2()TJ7.37 TD1oss8.0243.7(s)1.1823(6)432(209647613714 437.34 61.2 333.8 refBT10.02 0 0 10.02 453

Murray State University Foundation, Inc.
 Statements of Financial Position
 June 30, 2005 and 2004

Cash	\$ 115,694	\$ 29,920
Accounts receivable, net of allowance; 2005 - \$16,740, 2004 - \$16,256	70,327	67,376
Investments	54,440,112	47,726,626
Prepaid and other current assets	33,832	29,635
Real estate held for sale	88,710	462,085
Contributions receivable, net of allowance; 2005 - \$33,148, 2004 - \$47,770	625,594	902,086
Notes receivable	185,809	202,037
Property and equipment, net of accumulated depreciation; 2005 - \$1,585,764, 2004 - \$1,460,204	<u>3,202,959</u>	<u>3,284,587</u>
Total assets	<u>\$ 58,763,037</u>	<u>\$ 52,704,352</u>
Liabilities		
Accounts payable	\$ 159,133	\$ 165,334
Accrued expenses	32,939	31,034
Deferred revenue	38,613	33,368
Assets held for others	17,534,480	16,273,654
Annuities payable	221,762	236,484
Capital lease obligations	<u>83,802</u>	<u>120,273</u>
Total liabilities	<u>18,070,729</u>	<u>16,860,147</u>
Net Assets		
Unrestricted	6,041,631	5,809,256
Temporarily restricted	12,210,710	8,975,425
Permanently restricted	<u>22,439,967</u>	<u>21,059,524</u>
Total net assets	<u>40,692,308</u>	<u>35,844,205</u>
Total liabilities and net assets	<u>\$ 58,763,037</u>	<u>\$ 52,704,352</u>

Murray State University Athletic Foundation, Inc.
Statements of Financial Position
June 30, 2005 and 2004

Revenues
Operating revenues



Murray State University Foundation, Inc.
Statements of Activities
Years Ended June 30, 2005 and 2004

Murray State University Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2005 and 2004

Revenues, Gains and Other Support				
Contributions	\$ 82,999	\$ 923,198	\$ 3,875,339	\$ 4,881,536
Revenues from operations of golf course	476,488	—	—	476,488
Fees	116,607	—	—	116,607
Investment return	1,040,133	2,084,000	3,859	3,127,992
Other	168,520	294,003	63,115	525,638
Reclassification based on donor intent	(48,053)	440,343	(392,290)	—
Net assets released from restrictions	<u>1,584,088</u>	<u>(1,584,088)</u>	<u>—</u>	<u>—</u>
Total revenues, gains and other support	<u>3,420,782</u>	<u>2,157,456</u>	<u>3,550,023</u>	<u>9,128,261</u>
Expenses and Losses				
Payments made on behalf				

Murray State University

Murray State University Athletic Foundation, Inc.
 Statements of Activities
 Years Ended June 30, 2005 and 2004

Revenues, Gains and Other Support

Contributions	\$ 95,503	\$ 591,298	\$ 686,801
Sponsorships and promotions	492,908	140	493,048
Fund raising events	116,509	16,310	132,819
Investment return	12,360	—	12,360
Gain on sale of real estate held for sale	1,780,954	—	1,780,954
Other	56,273	475	56,748
Net assets released from restrictions	<u>632,956</u>	<u>(632,956)</u>	<u>—</u>
Total revenues, gains and other support	<u>3,187,463</u>	<u>(24,733)</u>	<u>3,162,730</u>

Expenses

Sponsorships and promotions	324,773	—	324,773
Contributions to Murray State University			
Athletic department	1,004,727	—	1,004,727
General operations	95,120	—	95,120
Contribution to Murray State University Foundation	93-4.4592.96 Tc0 T(34,	—	9592.96 Tc0 T(34, 98 0 -1.1437 TD0

Cash Flows from Operating Activities

Tuition and fees

\$ 32,726,025 \$ 27,695,754

Cash Flows from Investing Activities		
Proceeds from sales and maturities of investments	\$ 6,747,641	\$ 5,875,010
Purchase of investments	(9,928,475)	(5,979,952)
Interest receipts on investments	<u>1,812,771</u>	<u>1,613,029</u>
Net cash (used in) provided by investing activities	<u>(1,368,063)</u>	<u>1,508,087</u>
Net Decrease in Cash and Cash Equivalents	(1,203,692)	(4,186,913)
Cash and Cash Equivalents, Beginning of Year	<u>43,341,386</u>	<u>47,528,299</u>
Cash and Cash Equivalents, End of Year	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>
Reconciliation of Cash and Cash Equivalents to the Statements of Net Assets		
Cash and cash equivalents	\$ 31,733,726	\$ 25,491,325
Restricted cash and cash equivalents	<u>10,403,968</u>	<u>17,850,061</u>
Total cash and cash equivalents	<u>\$ 42,137,694</u>	<u>\$ 43,341,386</u>
Reconciliation of Operating Loss to Net Cash Used by Operating Activities		
Operating loss	\$ (56,075,880)	\$ (54,455,482)
Depreciation	7,359,964	6,620,436
Bad debt	169,248	128,894
Changes in assets and liabilities		
Accounts receivable, net	732,388	(619,127)
Inventories	38,326	(147,277)
Prepaid expenses	(191,775)	(99,049)
Accounts payable	(171,624)	672,768
Self-insured health liability	(73,646)	12,120
Accrued payroll	69,923	77,716
Deposits	(12,858)	(19,633)
Deferred revenue	<u>(365,053)</u>	<u>200,104</u>
Net cash used in operating activities	<u>\$ (48,520,987)</u>	<u>\$ (47,628,530)</u>
Supplemental Cash Flows Information		
Gifts of capital assets	\$ 262,407	\$ 156,178
Accounts payable incurred for capital assets	\$ 274,268	\$ 1,168,353

Cash and Cash Equivalents

The University considers all highly liquid investments that are immediately available to the University to be cash equivalents. Funds held by the Commonwealth of Kentucky are considered cash equivalents.

Restricted Cash, Cash Equivalents, and Investments

Cash, cash equivalents, and investments that are externally restricted are classified as restricted assets. These assets are used to make debt service payments, maintain sinking or reserve funds, purchase or construct capital or other noncurrent assets, or for other restricted purposes.

Investments

The University accounts for its investments at fair value. Fair value is determined using quoted market prices. Changes in unrealized gain (loss) on the carrying value of investments are reported as a component of investment income in the statements of revenues, expenses, and changes in net assets.

Assets held by the Murray State University Foundation, Inc. (Foundation) represent those gifts and donations made directly to the University, which are held by the Foundation for investment purposes. The net appreciation and income of donor restricted endowments are available to the University for expenditure to the extent permitted by Kentucky law and the spending policy of Murray State University Foundation, Inc. The recognition of gifts, donations, and endowment pledges are accounted for by the University in accordance with GASB Statement No. 33, *Accounting and Financial Reporting for Non-exchange Transactions*.

Accounts Receivable

Accounts receivable consists of tuition and fee charges, other operational activities, and auxiliary enterprise services. Accounts receivable also include amounts due from the Federal government, state and local governments, or private sources, for non-exchange type agreements defined in accordance with GASB No. 33 or in connection with reimbursement of allowable expenditures made pursuant to the University's grant and contracts. Accounts receivable are recorded net of estimated uncollectible amounts.

Use of Estimates

Inventories consisted of:

Inventories	<hr/>	
University bookstore – resale	\$ 1,449,850	\$ 1,466,376
Physical plant – supplies	402,074	407,151
Food services – resale and supplies	117,677	123,616

The assets in the pool are invested as follows:

Percentage of pool invested in:	<hr/>	
Mutual funds in equity securities	61%	58%
Mutual funds in fixed income securities	34	37
Other	<u>5</u>	<u>5</u>
Total	<u><u>100%</u></u>	<u><u>100%</u></u>

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The University does not within its investment policy formally limit investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates. The money market mutual funds are presented as an investment with a maturity of less than one year because they are redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. The University's investment policy requires investments to be in compliance with State statute. The University has no further policy that would limit its investment choices.

Concentration of Credit Risk. Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single user. The University places no limit on the amount that may be invested in any one issuer. The University does not hold more than 5% of its investments with a single issuer, other than those investments held in mutual funds.

Investment Income

Investment income for the years ended June 30, 2005 and 2004, consisted of:

Assets held by the University:	<hr/>	
Interest income	\$ 1,405,163	\$ 549,242
Assets held by MSU Foundation:		
Investment income	610,465	532,890
Net increase in fair value of investments	<u>448,846</u>	<u>715,751</u>

The Kentucky General Assembly appropriated funds to the Regional University Excellence Trust Fund (RUETF) with the passage of the Postsecondary Education Improvement Act of 1997 (House Bill 1). The purpose of this fund is to encourage private investment in public higher educational activities within the Commonwealth of Kentucky. These funds were made available to the comprehensive institutions within the Commonwealth with a provision that they would be matched dollar-for-dollar from external sources. The Commonwealth's Council on Postsecondary Education (CPE) was designated to oversee the distribution and use of these funds.

The following is a summary of the funding for the RUETF as of June 30, 2005:

1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 831,750	\$ 1,710,000	\$ —
2000-2002	3,521,787	3,521,787	—	3,411,682	3,411,682	110,105
2002-2004	<u>3,259,000</u>	<u>3,259,000</u>	<u>1,468,041</u>	<u>1,790,959</u>	<u>3,259,000</u>	<u>—</u>
Total	\$ <u>8,490,787</u>	\$ <u>8,490,787</u>	\$ <u>2,346,291</u>	\$ <u>6,034,391</u>	\$ <u>8,380,682</u>	\$ <u>110,105</u>

The following is a summary of the funding for the RUETF as of June 30, 2004:

1998-2000	\$ 1,710,000	\$ 1,710,000	\$ 878,250	\$ 824,250	\$ 1,702,500	\$ 7,500
2000-2002	3,521,787	3,521,787	—	2,734,834	2,734,834	786,953
2002-2004	<u>3,259,000</u>	<u>3,259,000</u>	<u>1,468,041</u>	<u>1,790,959</u>	<u>3,259,000</u>	<u>—</u>
Total	\$ <u>8,490,787</u>	\$ <u>8,490,787</u>	\$ <u>2,346,291</u>	\$ <u>5,350,043</u>	\$ <u>7,696,334</u>	\$ <u>794,453</u>

The University's external match pledges have not been recorded for financial reporting purposes in accordance with GASB No. 33. The above pledges must be fulfilled within a five year period of time due to the guidelines of the funding program.

Capital asset activity for the year ended June 30, 2005, was:

	Balance June 30, 2004	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2005
Land	\$ 6,481,565	\$ —	\$ 310,316	\$ —	\$ 6,791,881
Construction in progress	22,565,174	8,738,011	(26,118,440)	(2,129,156)	3,055,589
Museum and collectibles	<u>497,193</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>497,193</u>
Total capital assets not being depreciated	<u>29,543,932</u>	<u>8,738,011</u>	<u>(25,808,124)</u>	<u>(2,129,156)</u>	<u>10,344,663</u>
Buildings	158,215,922	—	24,424,756	(100,000)	182,540,678
Non-building improvements	8,813,301	—	930,107	(119,701)	9,623,707
Equipment	18,269,072	1,616,369	453,261	(473,414)	19,865,288
1 Library holdings -	25,004,956	998,400	(1,400,000)	(1,153,700)	23,459,656

Capital asset activity for the year ended June 30, 2004, was:

	Balance June 30, 2003	Additions	Transfers	Deletions/ Retirements	Balance June 30, 2004
Land	\$ 6,350,424	\$ —	\$ 165,976	\$ (34,835)	\$ 6,481,565
Construction in progress	13,227,507	17,488,948	(5,948,040)	(2,203,241)	22,565,174
Museum and collectibles	<u>427,769</u>	<u>69,424</u>	<u>—</u>	<u>—</u>	<u>497,193</u>
Total capital assets not being depreciated	<u>20,005,700</u>	<u>17,558,372</u>	<u>(5,782,064)</u>	<u>(2,238,076)</u>	<u>29,543,932</u>
Buildings	153,969,531	—	4,265,441	(19,050)	158,215,922
Non-building improvements	8,313,401	—	499,900	—	8,813,301
Equipment	17,390,672	551,214	1,016,723	(689,537)	18,269,072
Library holdings	23,920,009	1,201,817	—	(116,870)	25,004,956
Livestock	<u>44,250</u>	<u>50,000</u>	<u>—</u>	<u>—</u>	<u>94,250</u>

employee retires before reaching age 65 or has less than 27 years of service. The plan also provides for disability, death and survivor benefits and medical insurance.

The Kentucky Employee Retirement System issues a publicly available financial report that includes financial statements and required supplementary information. That report is obtainable by writing to Kentucky Employees Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky 40601 or by calling (502) 564-4646.

Funding of the plan is from eligible employees who contribute 5.00% of their salary through payroll deductions and the University, which also contributes 5.89% of current eligible employees' salaries to the non-hazardous KERS fund. Employees covered by the hazardous KERS fund contribute 8.00% of gross salary and the University contributes 18.84 % of gross salaries. The Kentucky Revised Statutes and the Board of Trustees of the Kentucky Retirement Systems determine contribution rates each biennium. The University's contributions to KERS for the years ended June 30, 2005, 2004, and 2003 were \$835,942, \$820,956, and \$787,271, respectively, and were equal to the required contributions.

University Health Self-Insurance Program

The University maintains a self-insurance program for employees' health insurance. The University pays approximately 78% of the expe

Deferred revenue consisted of:

Current deferred revenue:			
Prepaid tuition and fees	\$ 1,589,722	\$	1,360,294
International studies programs	553,226		358,981
Grants and contracts	717,938		1,498,712
Auxiliary enterprises	5,110		13,059
Capital state appropriations	<u>756,941</u>	<u></u>	<u>1,485,322</u>
Total current deferred revenue	\$ <u>3,622,937</u>	\$	<u>4,716,368</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2005:

Bonds payable	\$ 18,127,000	\$	—	(2,342,000)	\$ 15,785,000	\$	2,345,000	\$ 13,440,000
Less bond discounts	<u>(239,581)</u>	<u></u>	<u>—</u>	<u>27,555</u>	<u>(212,026)</u>	<u></u>	<u>(27,554)</u>	<u>(184,472)</u>
Bonds payable, net of discounts	17,887,419		—	(2,314,445)	15,572,974		2,317,446	13,255,528
City of Murray payable	10,000,000		—	—	10,000,000		90,000	9,910,000
Capital leases	1,703,193		—	(144,193)	1,559,000		97,000	1,462,000
Master lease notes payable	2,932,254	7,445,190		(956,713)	9,420,731		1,073,272	8,347,459
Notes payable	234,400		—	(90,000)	144,400		144,400	—
MSU Foundation notes payable	<u>100,693</u>	<u>20,000</u>		<u>(28,225)</u>	<u>92,468</u>		<u>39,286</u>	<u>53,182</u>
Total bonds, notes and capital leases	\$ <u>32,857,959</u>	\$ <u>7,465,190</u>	\$	<u>(3,533,576)</u>	\$ <u>36,789,573</u>	\$	<u>3,761,404</u>	\$ <u>33,028,169</u>

The following is a summary of long-term obligation transactions for the University for the year ended June 30, 2004:

Bonds payable	\$ 17,647,000	\$ 5,355,000	\$ (4,875,000)	\$ 18,127,000	\$ 2,342,000	\$ 15,785,000
Less bond discounts	<u>(232,547)</u>	<u>(69,708)</u>	<u>62,674</u>	<u>(239,581)</u>	<u>(27,554)</u>	<u>(212,027)</u>
Bonds payable, net of discounts	17,414,453	5,285,292	(4,812,326)	17,887,419	2,314,446	15,572,973
City of Murray payable	10,000,000	—	—	10,000,000	—	10,000,000
Capital leases	1,866,132	—	(162,939)	1,703,193	144,194	1,558,999

**Consolidated Educational Buildings
Revenue Bonds Payable**

Series G (second series) dated
March 1, 1993, with interest from
3.10% to 5.60%; final principal
payment due May 1, 2007;
I&T building

\$ 11,660,000 \$ 2,935,000 \$ 225,077 \$ 1,425,000

Series H (second series) dated
September 1, 2003, with interest
from 2.00% to 3.80%; final
principal payment due May 1,
2012; Undergrou6deimD0.3(i)10.0015 Tc0.003 Tw[lin)-4.5(es fo)-4.5(r Ol)6.9(d)-4.5()6(Fin)-4.5(e)-0.8()6(Arts)6(bu)-4.5(il

74,546 300,000

Total cons4s23(o)-4.6(lidated)-4.6(edu)-4.6(cational)TJ0.8982 -1.1497 TD-0.002 Tc0.0035 Tw(b)-5(u)-5(ild)-5(i)6.4(n)-5(gs r)-4.

260,000 299,623 725,000

Capital Leases

The University leases certain equipment and facilities, under capital lease agreements. The recorded cost of these assets and accumulated depreciation thereon were as follows:

Capital lease assets, at cost	\$ 2,516,960	\$ 2,516,960
Less accumulated depreciation	<u>(1,691,960)</u>	<u>(1,595,574)</u>
Net book value	<u>\$ 825,000</u>	<u>\$ 921,386</u>

Remaining minimum annual lease payments pursuant to these leases are as follows:

2006	\$ 178,974
2007	179,259
2008	179,231
2009	179,870
2010	179,118
2011-2015	896,666
2016-2018	<u>358,339</u>
	2,151,457
Less amount representing interest	<u>(592,457)</u>
Present value of capital lease obligations	<u>\$ 1,559,000</u>

The deposits held by the University consisted of:

Current:		
Horse stall rentals	\$ 2,870	\$ 5,139
Racer card declining balances	63,820	56,375
Housing deposits	58,251	107,861
Agency account balances	<u>42,857</u>	<u>37,708</u>
Total current deposits	<u>167,798</u>	<u>207,083</u>
Noncurrent:		
Housing deposits	<u>205,805</u>	<u>171,933</u>
Total deposits	<u>\$ 373,603</u>	<u>\$ 379,016</u>

Noncurrent housing deposit additions were \$134,000 and \$101,394 for years ended June 30, 2005 and 2004, respectively. Noncurrent housing deposit deductions were \$100,128 and \$121,007 for years ended June 30, 2005 and 2004, respectively.

The University's designations of unrestricted net assets consisted of:

Unrestricted net assets		
Allocated for		
Prior year carryovers		
Renovation and maintenance	\$ 2,230,527	\$ 1,099,668
Departmental operations	8,644,032	8,917,670
Encumbrances	697,277	475,297
Working capital	2,673,297	1,818,710
Revenue contingency	2,498,013	2,573,645
General contingency	8,801,218	5,700,550
Self insurance	<u>900,000</u>	<u>900,000</u>
Total unrestricted net assets	\$ 26,444,364	

The Murray State Campus Improvement Corporation, a nonprofit nonstock corporation, was created in May 2003 for the exclusive benefit and support of the Murray State University Foundation, Inc., to perform functions of or carry out the purposes of the Foundation, and to handle real and personal property activity for Murray State University. There was no financial activity of the Murray State Campus Improvement Corporation for the years ended June 30, 2005 and 2004.

Murray State University Athletic Foundation, Inc.

Murray State University Athletic Foundation, Inc. (Racer Foundation) is a Kentucky nonprofit corporation formed to enhance the academic and athletic experience of the Murray State University student-athlete. The Racer Foundation has a Board of Directors separate from that of the University. The University does not control the timing or amount of receipts from the Foundation, the majority of resources, or income thereon, that the Racer Foundation holds and invests. Expenditures are restricted by the donors to University athletic activities. Because the majority of these restricted resources held by the Racer Foundation can only be used by, or for the benefit of, the University, the Racer Foundation is considered a component unit of the University and is discretely presented in the University's financial statements.

During the year ended June 30, 2005, the Racer Foundation distrih ende5n.153-ys.

Housing and Dining System

The University's Housing and Dining System was established by the 1965 Trust Indenture. The Housing and Dining System, as defined by this trust indenture, includes all student housing, dining and student center facilities, and related enterprises facilities that now exist at the main campus in Murray, Kentucky. The University issues revenue bonds for this system to finance certain of its housing and dining auxiliary enterprise activities. These bonds will be payable from and will constitute a charge upon the gross revenue to be derived by the University from the operation of its Housing and Dining System. The revenues of the system consist of the gross amount of rentals received by the University for the use and occupancy of the facilities of the housing system and the net income from dining operations. These revenues do not include those generated by the University bookstore.

Condensed financial information of the University's Housing and Dining segment is as follows:

Condensed Balance Sheets

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 3,453,983	\$ 3,053,483
Noncurrent assets	2,599,923	3,001,872
Capital assets, net of accumulated depreciation	<u>9,974,190</u>	<u>9,694,798</u>
Total assets	<u>16,028,096</u>	<u>15,750,153</u>
Liabilities		
Current liabilities	6,616,423	6,310,491
Noncurrent liabilities	<u>10,670,852</u>	<u>11,368,334</u>
Total liabilities	<u>17,287,275</u>	<u>17,678,825</u>
Net assets		

**Condensed Statements of Revenues, Expenses
and Changes in Net Assets**

	2005	2004
Operating revenues	\$ 12,772,576	\$ 12,049,615
Operating expenses	(10,635,598)	(10,163,688)
Depreciation expense	<u>(830,486)</u>	<u>(775,068)</u>
Operating income	1,306,492	1,110,859
Nonoperating revenues (expenses)	<u>(636,999)</u>	<u>(1,769,318)</u>
Change in net assets	669,493	(658,459)
Net assets, beginning of year	<u>(1,928,672)</u>	<u>(1,270,213)</u>
Net assets, end of year	<u><u>\$ (1,259,179)</u></u>	<u><u>\$ (1,928,672)</u></u>

Susan E. Bauernfeind Student Recreation and Wellness Center

The University entered into an agreement with the City of Murray, Kentucky on December 30, 2002, to finance the construction of a student recreation/wellness center. The University established a \$3.00 per credit hour student fee, effective for the Fall 2002 semester, to be designated as the Wellness Center Fee. A portion of the revenues from this fee will be used to fund all debt and debt related expenses according to the terms and provisions of the Memorandum of Agreement between the University and the City of Murray.

Condensed financial information as of and for the years ended June 30, 2005 and June 30, 2004, of the University's Wellness Center segment are as follows:

Condensed Balance Sheet

	<u>2005</u>	<u>2004</u>
Assets		
Current assets	\$ 130	\$ 593,634
Noncurrent assets	1,376,075	4,172,992
Capital assets, net of accumulated depreciation	<u>10,018,905</u>	<u>7,188,513</u>
Total assets	<u>11,395,110</u>	<u>11,955,139</u>
Liabilities		
Current liabilities	230,446	626,437

Condensed Statement of Revenues, Expenses